

On November 28, 2016, the County received from MSD supplemental information for both the Operation and Maintenance budget as well as the CIP budget. This information was received unexpectedly given that earlier communication from OOD made it clear that no additional information was going to be provided to the County. The following is a preliminary high level analysis of the newest information provided by MSD.

Operating Budget

Most of the items described as “additional requests” in MSD’s original budget request dated August 15, 2016 have been removed from this submission. The requested funding level for personnel is relatively unchanged. However, MSD has provided a separate subsequent communication suggesting the requested personnel funding level needs to be increased by \$1.8M for raises that exceed the 3% raises included in the MSD August 15, 2016 proposed budget submission.

The newly issued supplemental information appears to be in contradiction with some portions of the original MSD submittal. As an example, the initial budget request included \$1.3M for jurisdictional billing; however the supplemental submission excludes this amount. This is a valid expense that needs to be included. It is unclear as to why this amount was missing from the newest submission.

CIP Budget

Over the past 3 years, the Board has approved CIP Budget requests of approximately \$300M per year. Each year MSD has not been able to execute a significant amount of the CIP projects planned for construction. In 2014, MSD brought forward for legislation only 34% of the planned projects. During the past two years the level of performance of actual as compared to planned construction has declined to 25% and currently 21%, respectively.

Each year there have been some projects that the County did not ultimately approve due to technical reasons. Generally this amounted to one or two projects a year. This has resulted in refinement of the originally submitted projects and great savings for the Board to enact on behalf of the rate payers. Regardless, the County has always recommended approval of WWIP/Consent Decree projects so as to facilitate timely performance of the WWIP.

The proposed CIP for 2017 includes approximately 25 construction projects that were originally planned by MSD for 2016. One high profile project is the Lick Run Valley Conveyance System project (VCS). This project was planned for construction in 2015, then again 2016, and is now being planned for 2017 construction.

MSD’s performance on the CIP has resulted in cash flow projections for each of the past three years approaching 50% of plan. The magnitude of the shortfall in performance of the CIP presents a challenge for effectively setting rates that provide the necessary and timely funding for the CIP.

CIP Allowances

Allowances have been established as a means for MSD to perform work that is planned related to smaller projects. The County has been encouraging MSD to improve the cost and performance tracking for all of the allowances for the past three years. Since 2014, there has been an issue with the accounting for the allowances. All of the allowances are capital allowances, that is; they are to be used to purchase or construct capital assets greater than \$5,000 in value. For the past three years MSD has continually utilized the allowance funds for non-capital expenditures that should have been funded by the operating budget.

Additionally, the County has encouraged MSD to develop a plan for the use of the allowance funds. This has been done in an effort to enable MSD and the County to measure performance against a planned and regimented approach to efficiently utilize the funding. For the past two years, MSD's plans for the allowances have either been extremely high level or in some cases not developed. This raises concerns about the effective planning and use of the allowance funds.

As a result, this year the County is recommending a reduction in the funding allocated to those accounts that have a history of being inappropriately utilized for operating related expenses. Additionally, the County is recommending the use of an asset management account for the funding of necessary asset management activities. The allowance funding recommended is consistent with prior years and focuses on ensuring appropriate capital expenditures are included.

Summary

While some minimal additional information was provided for the operation and maintenance budget; there was not a clear delineation of the changes proposed by MSD. Without a clear indication of the changes proposed, it is not feasible to perform a complete review of the supplemental information in the time remaining before the first budget hearing.

Several changes to the CIP were proposed by MSD including the addition of several projects. The attached sheet provides an evaluation of the projects in the Executive Summary of MSD's revised proposed 2017 CIP budget.